

IRS News Release

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Deducting “Other” Business Expenses

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The Internal Revenue Service has issued a number of educational fact sheets reminding taxpayers to know the rules for deducting several specific business expenses. This fact sheet, the tenth in the series, reminds taxpayers to follow appropriate guidelines when deducting expenses that fall under the category of “Other” on the Schedule C, Profit or Loss from Business.

“Other” business expenses account for just part of the overstated adjustments, deductions, exemptions and credits that add up to \$30 billion per year in unpaid taxes, according to IRS estimates.

In general, taxpayers may deduct ordinary and necessary expenses incurred in conducting a trade or business. An ordinary expense is an expense that is common and accepted in the taxpayer’s trade or business. A necessary expense is one that is appropriate for the business. Although many common expenses are deducted on designated lines of the tax schedule, some expenses may not fit into a particular category. Taxpayers can deduct these as “other” expenses. A breakdown of “other” expenses must be listed on line 48 of Form 1040 Schedule C. The total is then entered on line 27.

Examples of “other” expenses include:

- Amortization of certain costs, such as pollution-control facilities, research and experimentation, and intangibles including goodwill.
- Bad debts. Business bad debts must be directly related to sales or services provided by the business, must have been previously included in income and must be worthless (non-recoverable). If a taxpayer deducts a bad debt expense and later recovers it, the amount must be included in income in the year collected.
- Business start-up costs. These are costs related to creating an active trade or business, or investigating the creation or acquisition of an active trade or business. Generally these costs are amortized. However, taxpayers who started a business in 2006 may elect to deduct up to \$5,000 of certain start up costs, subject to limitations. Refer to chapter 7 of Publication 535, Business Expenses, for more information.
- Gulf Opportunity (GO) Zone clean-up costs. Fifty percent of qualified clean-up costs for the removal of debris from, or the demolition of structures on, real property located in the GO Zone which are paid or incurred in 2006 are deductible as “other” expenses. The property must be held for use in a trade or business, for the production of income, or as inventory.

Personal, living and family expenses, do not qualify as deductible “other” business expenses.
Further information is available in IRS Publication 535, Business Expenses.